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RUEHNE/AMEMBASSY NEW DELHI 1489  
RUEHWL/AMEMBASSY WELLINGTON 2179  
RUEKJCS/SECDEF WASHDC  
RHHJJPI/USPACOM HONOLULU HI  
RHEHNSC/NSC WASHDC  
RUEAIIA/CIA WASHDC  
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C O N F I D E N T I A L SECTION 01 OF 06 JAKARTA 003439

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DEPT FOR EAP, EAP/MTS, EAP/MLS, EAP/RSP, EAP/CM, EAP/TC  
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TAGS: [PREL](#) [PGOV](#) [PARM](#) [ECON](#) [ID](#) [CH](#)  
SUBJECT: SINO-INDONESIAN TIES -- CAUTIOUS BUT INCREASING  
ENGAGEMENT

Classified By: Pol/C Joseph Legend Novak, reasons 1.4 (b+d).

11. (C) SUMMARY: China is becoming an increasingly important player in Indonesia. It has incipient defense cooperation relations, and growing trade, investment and cultural ties with Indonesia. Taiwan and historical legacies complicate relations, while Indonesia's Chinese community offers a point of contact. Indonesia is concerned that--with the U.S. at times preoccupied elsewhere in the world--China's influence in the region may grow even stronger with negative consequences for the Asian strategic balance. Concern over the rise of China creates an opportunity to build stronger U.S./Indonesian relations. The USG should support the GOI's strategy of using ASEAN as a tool to help maintain a balance.  
END SUMMARY.

CHINA AS A "STRATEGIC PARTNER"

12. (C) Indonesia characterizes its relationship with China as a "strategic partnership" and a document formally establishing this relationship was signed in Beijing in July 12005. Two rounds of strategic talks have been held annually since 2005, according to GOI officials. The most recent talks--which occurred in Beijing on November 27-29 at the sub-ministerial level--were led by the Department of Foreign Affairs and included officials from several economic ministries and a private-sector delegation.

13. (C) Indonesia has concluded strategic partnerships with other countries in the region, notably India (2005), Japan (2006) and South Korea (2006), and refers to its relationship with the United States by the same term. DEPLU contacts say strategic partnerships consist of three major components: political and security; economic and developmental; and social and cultural cooperation. These strategic partnerships are supplemented by a so-called "Plan of Action," which Indonesia is in the process of drafting with China. Critics assert that the term "strategic partner"--as Indonesians use it--is watered down simply to mean key countries that Indonesia wants to have closer relations with and not much more.

ASEAN IN THE MIX

¶4. (C) China is actively engaged with ASEAN at multiple levels and has been receptive to ASEAN's growing role as a regional organization. For Indonesia, ASEAN is the primary framework for dealing with China on regional security issues.

Indonesia and its ASEAN neighbors have agreed to use this framework in order to develop a uniform approach on regional security. The ASEAN framework consists, GOI officials suggest, of concentric circles beginning with ASEAN itself, whose members are bound by the Treaty of Amity and Cooperation (TAC) and will in the future be bound by the new ASEAN Charter, once it is ratified.

¶5. (C) The second circle is the East Asian Summit (EAS), with ASEAN 1 and ASEAN 3 serving as something like intermediary spokes between ASEAN and EAS. A third circle involves dialogue with East Asian and other partners in the Annual Ministerial Meeting (AMM), Post-Ministerial Summit (PMS) and ASEAN Regional Forum (ARF). ASEAN is thus the core of three concentric circles. Another metaphor cited by GOI officials for the strategy is an airplane, ASEAN being the body, East Asian partners like China and Japan the wings, and EAS partners (Australia, India and Russia) the tail. All parts are needed in order for the airplane to fly, but ASEAN remains in the driver's seat.

¶6. (C) Indonesian officials emphasize that these ASEAN-centered regional structures provide a framework for dealing with China's growing influence in the region. Having signed the TAC, China can be considered a friend, GOI officials stress. At the same time, China needs to be integrated into regional structures so as to maintain a balance in which the national interest of Indonesia and its

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ASEAN neighbors can be preserved and protected.

TAIWAN

¶7. (SBU) Indonesia's continuing unofficial relations with Taiwan remain important for Indonesia and are a complicating factor in Indonesia-PRC relations. In re-establishing diplomatic relations with the PRC in 1991 after years of tension, Indonesia preserved its economic and cultural ties with Taiwan, which remain active. Taiwan is still Indonesia's fifth-largest foreign investor, with over 7000 Taiwanese businesses in Indonesia. Indonesian exports to Taiwan include mineral resources, seafood, clothing and electronics manufactures. An active Taiwan Friendship Association in the Indonesian national legislature (DPR) continues to lobby in favor of Taiwan ties.

¶8. (C) Two transit visits by Taiwan President Chen Shui Bien, to Bali in October 2002 and to Batam Island (near Singapore) in May 2007, drew strong Chinese protests. China demanded in both cases that Indonesia adhere to the one-China policy and allow no further "unexpected visits." The Indonesian government publicly voiced regret over the second incident. It remains unclear how Indonesia will handle such Taiwan requests in the future.

¶9. (C) Taiwan representatives in Jakarta have pointed out to us that China actively competes with Taiwan's public outreach events and promotions around Chinese New Year and other holidays and major events. In addition, China increasingly uses cultural events to conduct political campaigns against Taiwan independence and claims to official international status.

THE DALAI LAMA, ET AL

¶10. (C) In addition to Taiwan, several other "residual issues," as GOI and Chinese Embassy officials describe them, complicate relations with China:

-- DALAI LAMA VISITS: The Dalai Lama was planning to visit

Indonesia in 2007. China weighed in strongly in advance against the visit, which eventually was postponed. The issue of whether the Dalai Lama would ever be allowed to visit was left unresolved and officials say there is now a possibility the Dalai Lama will seek to visit in 2008.

-- IMPORT BANS: Indonesia has in the past year banned several Chinese exports, among them food products, because of health and safety concerns. China has protested the bans and threatened to retaliate against Indonesian exports.

-- REAL ESTATE CLAIMS: There is a continuing dispute over the ownership of real estate in North Jakarta which had been the site of the Chinese Embassy before relations were broken in 1965. The new Chinese Embassy stands on a different site but China still claims ownership of the older property. The claim is being contested in the courts. In a meeting with Pol/C, the Chinese Embassy Pol/C--through clenched teeth--said China considers the resolution of this issue as "important" and needs to be resolved "in the context of confirming our friendly relations with Indonesia."

#### GROWING TRADE AND INVESTMENT

¶11. (SBU) The bilateral trade relationship is growing rapidly, increasingly reaching the dominance that Japan enjoyed several decades ago. Bilateral trade is projected to reach \$20 billion in 2008 and \$30 billion in 2010. Currently the balance is in Indonesia's favor, although there is considerable concern that Chinese goods could swamp Indonesian markets and displace Indonesian competitors at home in the future. A Joint Commission on Trade exists to resolve trade differences.

¶12. (SBU) China and Indonesia enjoy a robust and growing

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economic relationship centered primarily on oil, gas, minerals, palm oil, and rubber. Total trade for the first half of 2007 was \$10.2 billion with a modest \$714.6 million surplus in Indonesia's favor, according to the government statistics bureau. China is the fifth largest export market for Indonesia behind the EU, Japan, U.S., and Singapore. Oil and gas account for the largest segment of Indonesia's exports at \$1.7 billion during the first semester 2007. Palm oil was the largest non-oil and gas export in 2006 with \$637 million. China is the second largest source of imports for Indonesia behind the EU, accounting for almost 13 percent of imports in 2006. Capital goods account for the majority of Indonesia's purchases from China.

¶13. (SBU) Chinese companies are engaged in a frenetic search for energy and mineral resources in Indonesia, and the deals in these sectors tend to dominate bilateral commercial relations as well as the business news headlines. Chinese firms are making aggressive bids to secure coal exports from Indonesia, as well coal mines. On November 26, China's biggest coal producer China Shenhua Energy announced a \$4 billion bid for a controlling stake in PT Adaro, Indonesia's number-two coal producer, according to business press reports. Adaro management has declined to confirm or deny receipt of an offer, saying only that it had "interesting prospects." China Railway and China International Trust and Investment Corporation also announced in March that it would invest between \$490 and \$720 million in coal transportation infrastructure in Sumatra and Kalimantan.

¶14. (SBU) In the electricity sector, Chinese firms won the contracts for eight of the ten major projects in the GOI's fast-track electricity building program to add 10,000 MW of new generation capacity by 2010. Chinese Energy giant CNOOC has several production sharing contracts in Indonesia and has recently been mulling publicly whether to buy three more from Indonesian firm Medco. CNOOC is also in ongoing discussions with the local Sinar Mas group over a 51 percent stake in a \$5.5 billion biofuels project. The two parties signed an MOU

in January.

¶15. (SBU) CNOOC also owns almost 17 percent of BP's \$5 billion Tangguh LNG project in Papua. The project will produce 7.6 million tons per annum when molecules begin flowing in late 2008/early 2009. Pertamina's \$3 billion deal with Sinopec to construct a new oil refinery in Tuban, East Java, was revived in April after many years of delay. It is now on hold again due to declining domestic oil production and skyrocketing construction costs.

#### THERE IS SOME FRICTION

¶16. (C) The Sino-Indonesian commercial relationship does feature considerable friction, however. Many GOI energy officials have expressed chagrin at the poor quality and meager local employment from power plant construction by Chinese firms. One state electricity executive told us that the Chinese had hired virtually no Indonesians for the Cilacap power plant project, which came on-line in 2006. Virtually all the construction material was sourced from China, including the wire and bamboo temporary fencing. The Cilacap power plant has also been mired with operational problems, rarely offering more than 40 percent availability since coming on-line. Chinese hardball negotiating tactics for GOI guarantees for the 10,000 MW electricity building program also reportedly bruised Indonesian feelings. After competitors walked away from participation in the original tender because of the GOI's steady refusal to offer government guarantees, the Chinese won the contract, only to force the GOI into providing guarantees after more than 18 months of stalled progress on power plant construction.

¶17. (C) State mining company PT Aneka Tambang is one of many Indonesian companies which have abandoned the search for a Chinese partner. In March, Antam said it was looking for a new partner for its proposed \$250 million aluminum smelter in

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Riau after Chinese firm Xinfa Aluminium Corporation tied unreasonable conditions to its investment. We also understand from several sources that the CNOOC-Sinar Mas biofuels deal negotiation is also quite contentious and perhaps may never come to financial closure.

¶18. (C) As one of the chief consumers of Indonesian raw materials, China is a major factor in the Indonesian problem with illegal logging, fishing and other illicit activities. The absence of a corrupt practices act in China and its enormous appetite for resources gives Chinese companies little incentive to cooperate in reining in this sector.

#### DEFENSE COOPERATION STILL LIMITED

¶19. (C) Indonesian Defense Minister Juwono Sudarsono and Chinese Defense Minister Cao Gangchuan signed a defense memorandum of understanding on November 7 in Beijing. Sudarsono stressed that this was not a mutual defense pact and that Indonesia preserved its "free and active" foreign policy (a codeword for "non-alignment"). The agreement, titled "Indonesia-China Cooperation on Defense Activities," covers student training and exchanges, military exercises, technical cooperation (with some transfer of defense technology), and procurement of defense equipment. Arrangements of this level do not require ratification by the national legislature (DPR). The agreement essentially formalizes existing cooperation.

¶20. (C) As things stand now, Indonesian defense cooperation with China is still quite limited. Training, education and exercises reflect a basic commitment to partnership, while procurement is ad hoc and based on specific Indonesian needs rather than any systematic strategy. Cooperation includes the following:

-- Training and education ranges from basic through to

advanced courses. TNI officers attend China's military college, while China has one student in the Indonesian Army Staff College and will likely begin sending officers to the Naval and Air Staff Colleges, as well as the TNI War College;

-- Military exercises focus on capacity building at the platoon level. The cooperation agreement does not specify exercise themes, but China is interested in commencing maritime security exercises, with a focus on the Malacca Strait; and,

-- Procurement of defense equipment from China remains limited and ad hoc. The 2005 agreement provides for the installation of a small number of C-802 Anti-Ship Cruise Missiles on Indonesian Navy ships, a project which is nearly complete. There have been discussions to provide helicopters, a K-8 Advanced Jet Trainer to replace older Hawk MK-53 trainers. China has also offered financial assistance for shipyard construction in cooperation with local defense contractors, although no contracts have yet been signed, according to Mission DAO contacts.

#### THAT ETHNIC LINK

¶21. (SBU) Indonesia's ethnic Chinese community--which is estimated to be roughly two to four percent of the population--consists of Chinese who immigrated long ago and have become extensively integrated into Indonesian culture, and other Chinese who arrived after the Second World War. These latter elements, largely Fujianese and Hokkien, fled Communism and--often with President Suharto's patronage--quickly amassed huge fortunes. Ethnic Chinese, particularly the more recent arrivals, tend to be Buddhist or Christian. Since Deng Xiao-ping's reforms and the normalization of diplomatic ties with Beijing in 1991, Indonesia's Chinese business community is increasingly doing business with China. The presence of an Indonesian Consulate General in Guangzhou and the plans for one in Shanghai reflect this reality.

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#### NEGATIVE LEGACIES

¶22. (SBU) The different historical experiences of the two countries, as well as the presence of an ethnic Chinese community in predominantly Muslim Indonesia, shape Indonesia's relationship with China. China has in the past represented both an internal and external threat to Indonesia. Indonesia's experience with Communism culminated in riots and the violent suppression of the Indonesian Communist Party (PKI) in 1965. Traumatic events like the attempted coup within the Army in 1965 and subsequent mass killings, including of Chinese, and the anti-Chinese riots in Jakarta in 1998 are still vividly remembered, and discrimination and distrust between the "indigenous" (Muslim Malays) and (the invariably wealthier) Chinese Indonesian communities linger.

¶23. (SBU) A major improvement in the ethnic equation domestically followed from President Abdurrahman Wahid's decision in 2000 to allow greater freedom of cultural expression to Chinese Indonesians. They were for the first time allowed to establish schools and study Mandarin, publish and circulate Chinese-language newspapers and publicly observe traditional festivals such as Chinese New Year. A further step occurred in 2006 with the passage of a law allowing dual citizenship, which eliminated the long-standing official differentiation between "indigenous" and "non-indigenous" Indonesians, which Chinese Indonesians regarded as discriminatory.

#### USING "SOFT POWER"

¶24. (SBU) With the restoration of relations in 1991 and the growth of mutually beneficial economic relations, cultural

and other ties have steadily improved between Indonesia and China. The improved atmosphere has given China the opportunity to exercise its influence through "soft power." That said, China has been slow to exploit cultural, educational and media engagement. China-sponsored scholarships and cultural exchange programs appear to be quite limited in number and low-key in nature. The official website of the Chinese Embassy in Jakarta contains virtually no information about cultural or educational affairs, though it has some press releases in Indonesian. The Chinese Embassy and its staff are active and, by all accounts, quite effective, however, and its diplomats often speak fluent Indonesian.

WE HAVE A ROLE

¶25. (C) The USG has a vital role to play in this mix. Indonesia is clearly watching China carefully, understanding fully that its neighbor to the north is growing wealthier and increasingly powerful. Given this, Indonesia wants to ensure that it maintains solid relations with China. At the same time, Indonesia is a proud country and does not want to be dominated by anyone. Indonesia is concerned that--with the U.S. seemingly preoccupied elsewhere in the world at times--China's influence in the region may grow even stronger with negative consequences for the Asian strategic balance.

¶26. (C) We should continue to take advantage of this opening caused by China's rise to further improve our relations with Indonesia. The USG should support Indonesia's strategy of using ASEAN as a tool to help maintain a balance, for example. As we do so, we need to keep in mind that Indonesia's "free and active foreign policy" likes low-key, non-confrontational approaches and will not support any form of "neo-containment." If handled carefully, however, Indonesia can be a key ally in trying to ensure that the rise of China is a peaceful, integrative one. We should continue to cooperate with Indonesia in order to support that objective. The GOI, for example, appreciated recent DoD briefings regarding China and has requested more.

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